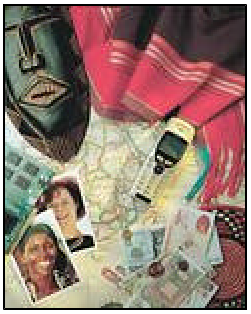

FINANCE & DEVELOPMENT
A quarterly magazine of the IMF
December 2001, Volume 38, Number 4

# Africa Faces Challenges of Globalization

Mohamed Daouas

Search F&D
Search
Advanced Search

About F&D
Subscribe
Back Issues
Write Us
Copyright Information

E-Mail Notification
Subscribe or Modify your subscription

Globalization is multidimensional, affecting all aspects of life—economic, cultural, environmental, and social—as well as relations between governments and nations on the five continents.

Globalization is characterized, in particular, by an intensification of cross-border trade and increased financial and foreign direct investment flows, promoted by rapid liberalization and advances in information technologies. For many countries, this global process has made the pursuit of development and maintenance of internal and external stability very difficult and delicate tasks. On the one hand, globalization holds out to participants the promise of growth in trade and international investment; on the other hand, it heightens the risks of instability and marginalization.

## Impact of globalization

Although globalization has helped increase growth and wealth in recent years, it has not done so for all continents and all countries. In the least developed countries, and on the African continent in particular, a worsening of existing imbalances has impeded development and aggravated poverty. The marginalization of these countries is reflected in their small share of world trade (barely 2 percent), output (not much higher), and foreign investment (1 percent).

This situation is exacerbated by Africa's unsustainable external debt and by unfulfilled promises of official assistance at a time when most countries cannot continue their reforms and development efforts without financial support. Although the countries of the Organization for Economic Cooperation and Development have committed the equivalent of 0.7 percent of their GDP to official development assistance, at present, average disbursements amount to only 0.25 percent. In absolute terms, the difference between the amount committed and the amount actually provided by donors comes to $100 billion a year.

Given these facts, we should examine the different facets of globalization and assess its benefits and risks in light of the recent economic and financial crises that have shaken various parts of the world and diverse economies, from the very rich to the very poor. This approach should improve Africa's chances of successfully integrating with the world economy.

Despite a sometimes unfavorable international environment, marked by natural disasters that have affected a large number of countries in the region, Africa has, on the whole, recorded satisfactory rates of growth in recent years. While only 18 countries in the region recorded growth of 3 percent or more in 1992, today 30 countries have achieved such rates and are working to improve per capita GNP significantly while controlling inflation. However, this performance has been achieved at the price of costly structural reforms that have often negatively affected the most vulnerable segments of society.

Moreover, Africa is still far from reaching its goal of an annual growth rate above 7 percent a year, which is essential if it is to achieve the quality of life of other developing countries. It is not impossible for African countries to accomplish this goal, but they can do so only by integrating with the world economy and by accelerating reforms, with two fundamental objectives in mind:

- creating the best possible conditions for private investment by promoting greater openness in domestic and foreign trade; and
- making their economies more efficient by redefining the role of the state, reforming the civil service so as to improve the business climate, and introducing a transparent legal and regulatory framework that will encourage private investment. Governments should focus on social development, particularly health and education, to make up the large deficit that most African countries have in these areas.

The financial sector, an essential channel for implementing and ensuring the success of these reforms, must be included in any reform program. The consolidation, restructuring, and modernization of the banking sector and the development of capital markets and financial institutions are both important. However, past experience suggests that, to be successful, reforms must be adapted to each country's specific economic and social characteristics as well as to its priorities and level of development.

**Role of development partners**

While the African countries themselves bear primary responsibility for achieving their reform and development objectives, international organizations and the international community must support their efforts. If the clear desire of our continent to pull itself up and become part of the world economy is combined with greater determination on the part of the industrial countries to honor their commitments and open their markets, with the support of regional and international organizations, we will be able to meet the challenges of increasing growth and reducing poverty and thus lay the foundation for political, economic, and social stability.

As a first step, the industrial countries could support Africa's efforts by allowing the continent's exports free access to their markets, which would enable the heavily indebted countries in particular to better integrate with the global trading system. The abolition of trade barriers, according to some studies, could yield income flows that are three times the amount of the external aid provided to the developing countries. This conclusion leads us to a crucial point about the availability of resources, which have thus far been insufficient for many African countries: relief from the burden of their external debt, through cancellation or rescheduling, would enable these countries to save resources that could be allocated to productive investment, which would generate growth and improve social justice.

These same partners could provide additional support by promoting flows of private capital to the African countries, especially foreign direct investment, which instead of generating debt, creates new jobs and often brings new technologies to the country. Indeed, if the African countries are to raise the level of their technological development, they will need to establish partnerships with the advanced industrial countries in the areas of natural and mineral resources. Through these partnerships, know-how would be transferred from the advanced economies to the countries of Africa and provide value added that would position the continent's products to meet global demand and compete internationally. Finally, Africa's partners could provide support by honoring their existing financial commitments to the reduction of poverty.

We must not overlook the efforts of the institutions that safeguard the international monetary and financial system to contain the risks of globalization while improving the living standards of all peoples and increasing their economic opportunities. The overarching objective of these institutions is to achieve sound, sustainable growth without major shocks and, thus, to reduce poverty. The IMF and the World Bank, in particular, must continue to work together to implement a participatory poverty reduction strategy. They must go beyond promoting macroeconomic discipline, liberalization, and limitation of governments' role in the economy to pressing for reforms that will strengthen the institutional environment—particularly the rules of the market, the rule of law, and good governance—so as to achieve a convergence between the legal frameworks and institutions of the developing and industrial countries. International institutions must work together toward the single objective of making globalization a process of integration and not one of exclusion. The recent financial upheavals in Southeast Asia, Latin America, and Russia all illustrate the pressing need to reinforce the consistency between the programs of these different institutions.

Finally, regional integration and increased economic cooperation are also important for ensuring Africa's integration with the global economy. Indeed, at a time when globalization is predominant and regional groupings, whether political or economic, are the principal influential forces on the world scene, it is up to Africa's leaders to further develop these mechanisms of integration, in particular by establishing vertical and horizontal links across the continent that overcome ethnic or regional sensitivities. Larger free trade zones and joint development projects are two examples.

Our regional organizations must be viewed as instruments that can facilitate the integration of the African countries with the world economy by improving African producers' access to the regional markets. They must neither limit themselves to protesting nor become protectionist fortresses against globalization, but rather must develop programs and strategies to further consolidate regional cohesion.

---

**Mohamed Daouas** is the Governor of the Central Bank of Tunisia.

IMF Home Search Site Map Site Index Help What's New
About the IMF News Publications Country Info IMF Finances Standards & Codes